

CYNGOR SIR POWYS COUNTY COUNCIL.

CABINET

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Portfolio Holder for Finance**

SUBJECT: Budget for 2019-20, Medium Term Financial Strategy 2019-2024 and Capital Programme for 2019-2024

REPORT FOR: Decision

1. Introduction

- 1.1 This report and the appendices attached set out the proposals for the Revenue Budget and Capital Programme for the financial year commencing 1st April 2019 with provisional proposals for the next 4 years to 31st March 2024. The Medium Term Financial Strategy (MTFS) is attached at Appendix 1.
- 1.2 The Council is required under the Local Government Act 2003 to set a balanced budget for the forthcoming financial year. The MTFS reports a balanced budget for 2019/20. There is no requirement to set out a balanced position beyond the next year but the five-year strategy has been developed to enable longer term planning and transformation.
- 1.3 The Council continues to respond to the major financial challenge it is experiencing to ensure that it maintains a balanced budget.
- 1.4 The choices to achieve this position are difficult. Delivering services in the same way as we have done in the past is no longer viable. This budget proposal recognises that we must ensure our statutory services are delivered efficiently and achieve value for money. However, it is often the discretionary services that our residents value.

1.5 Protecting Priorities and Services

The council has attempted to protect the services our residents value and need, and prioritise the council's Vision 2025:

- This budget passes on to schools delegated budgets an additional £1m, retaining Powys' position as one of the highest funders of education in Wales.
- This budget protects the investment that has been made in Children's and Adults services although significant pressures remain.
- This budget maintains the funding for developing key priorities within Vision 2025 such as the mid-Wales Growth Deal, building 250 extra homes and using the council's considerable spend to support county businesses with greater use of the Powys pound.
- This budget protects the delivery of statutory services such as environmental health and Trading Standards.

1.6 Our approach to 'bridging the funding gap'

This starts with transformational changes to the council's operating model. This has included the following:

- A new, smaller senior management structure saving £1m.
- Reductions in management and staffing numbers and costs in back office and support functions, flowing from the new operating model, saving £3.3m.
- Changes to management and system processes saving £200k
- A radical review of all council's assets, through the rationalisation and disposing of property, we have already disposed of 81 buildings since 2013 and further changes in 2019/20 will save £384k.

1.7 The council has also started to take a transformational approach to the way it will deliver or fund some services. This includes:

- A complete review of all third party funding and withdrawal of funding from all but the highest priorities saving £862k
- Innovative models of social care, partnership working and greater use of digital technology, providing effective, integrated health and care in a rural environment.
- Full recovery of costs in some areas, withdrawal of funding from areas that are lower priority and sourcing alternative funding streams, saving £2.4m
- Restructure our services for children with additional learning needs, inclusion and behaviour through reorganisation of the delivery of support for pupils with additional learning needs in line with the new Additional Learning Needs and Education Tribunal Wales Act and increasing capacity in county to reduce the number of Out of County placements, saving £300k.
- Rationalisation of Highways Waste Recycling Centres and changes in Highways operational activity, saving £375k.
- The Highways Transport and Recycling Transformation programme for 2019/20 will improve productivity, reduce costs and generate more income delivering savings of £1.1m

1.8 We have also focussed on areas where income could be maximised either through justified increases in charges and fees, or working differently with our partners and sharing building or developing multi organisation hubs.

1.9 The budget proposed this year does not rely on reserves or one-off sources of funding and addresses one of sources used in the previous year to ensure that the budget is sustainable going forward. The level of reserves is assessed as being at an acceptable level and in line with the Council's policy of maintaining a 3% minimum general fund reserves. Specific reserves are held for identified purposes.

1.10 It is recognised that the Council of the past is no longer affordable, the council will become smaller while maintaining its focus on its priorities.

2. Strategic Context

2.1 The Office for Budget Responsibility (OBR) reported in October 2018 that the outlook for the public finances, in the medium term, looks much the same as it did in March 2018 - a significant improvement in the underlying pace of deficit reduction, that on its own would have put the Government on course to achieve its objective of a balanced budget for the first time. This underlying improvement now meets the Prime Minister's promise of higher spending on the NHS made in June. The remaining budget policy measures mean the deficit in 2022-23 is little changed overall.

- 2.2 On 29 October, the Chancellor of the Exchequer presented the UK Autumn Budget. As a result of the UK Government's spending decisions, Wales received Barnett consequentials (Wales' share of central government funding additions) of £554.3m between 2018-19 and 2020-21. This comprises an extra £485.9m revenue, £59.9m capital and £8.5m of financial transactions capital.
- 2.3 The Welsh Government stated that local government would be "front of the queue" for extra funding resulting from the Autumn Budget as it recognised the real pressures local authorities are facing. In January 2018, local authorities were facing a 1% reduction in the revenue support grant (RSG) for 2019-20 – this was equivalent to a cash reduction of £43m. The draft Budget 2019-20 reduced that cut in funding in the RSG to less than £15m (equivalent to a reduction of 0.3% in the RSG). Welsh Government put in place a funding 'floor' to ensure no authority would face a reduction in funding of more than 1% over the previous year. The draft Budget also provided £84m of additional revenue in special grants and other funding streams for local government outside the RSG.
- 2.4 In November, Welsh Government announced a package of additional funding proposals worth a total of £141.5m over three years (2018-21) for local government. Wales Fiscal Analysis briefing note reports that Welsh Government day-to-day spending will increase by over 2%, in real terms, in 2019-20, which is by far the largest increase since before the start of austerity measures in 2010-11. However, it will still be around 5% lower in real terms than in 2010-11.
- 2.5 The local context affecting our funding and demand for services is well recognised, heavily influenced by Powys being sparsely populated with a wide geographic area requiring services. It has a higher than average elderly population that is predicted to increase at a rate that is significantly greater than the national average. This statistic can largely be attributed to people living longer as a result of better healthcare and improved lifestyles together with an inward migration of people to the County above retirement age.
- 2.6 Conversely, the county's level of younger population is declining with a reducing birth rate and a sizeable outward migration of young people looking for further educational and career opportunities being the main contributors to this trend.
- 2.7 These factors in combination continue to present significant challenges. The provision of services to a dispersed and relatively small population is expensive as a result of greater transport costs and the demand for facilities to be delivered locally or within a commutable distance. Additionally, a consequence of an ageing population is the increased demand for more complex and therefore more expensive care support.
- 2.8 Social Services within Powys have been under considerable pressure. Demand for these services and the need for sustainable change has been supported by considerable investment. These pressures continue to impact on the Council's budget. Budgets for these services will be set in order to manage the current pattern of service provision. The on-going development of clear service and financial strategies support this approach. Identification of the potential future pressures these services could face, together with plans of how these can be mitigated and managed, demonstrate how service provision will transform whilst delivering the required improvement.

3 Welsh Government Settlement

- 3.1 The Final Settlement was received on the 19th December 2018. The Aggregate External Finance (AEF) figure was £174.291m which was a 0.3% reduction in grant after adjusting for transfers. The impact upon Local Government in Wales, as a whole, was an average increase in funding of 0.2%.
- 3.2 Powys, along with 9 other Authorities, saw a reduced level of funding, with Powys ranking joint 18th of the 22. The remaining 13 authorities had an increase in funding with the average being an increase of 0.2%. This position has yet again been helped by the application of a 'top up', minimising the level of reduction at 0.3%. 5 authorities benefitted from this.
- 3.3 Powys has £1,323 of funding per capita, compared to the Wales average of £1,352 and the year on year change ranks 12th out of all the Unitary Authorities.
- 3.4 The annual funding distribution from Welsh Government (WG) relies on the use of a number of key datasets within the formula that calculates the funding allocation for each council.
- 3.5 For Powys our funding settlement for next year has yet again been influenced by less favourable movement in these data sets in nearly all areas. This is a persistent factor affecting our settlement and includes population projections, pupil numbers, primary free school meals and income support and job seekers allowance/pension credits claimants. The following table shows our comparative position out of the 22 local authorities. The key data sets are population and pupil numbers.

Changes in Key Datasets

Dataset ¹	2018-19 Final	2019-20 Final	% Difference	Rank
Population projections	131,922	131,721	-0.2%	22
Pupil Numbers - Nursery and Primary	9,840	9,755	-0.9%	21
Pupil Numbers - Secondary in year groups 7-11	6,315	6,297	-0.3%	18
Free School Meals - Primary	1,065	1,034	-2.9%	20
Free School Meals - Secondary	640	637	-0.5%	15
Children in out of work families	3,000	2,900	-3.3%	15
IS/ JSA/ PC/UC (not in employment) claimants - 18 to 64	1,886	1,605	-14.9%	22
IS/ JSA/ PC claimants - 65+	4,684	4,466	-4.7%	8
IS/ JSA/ PC/UC (not in employment) claimants - all ages	6,584	6,084	-7.6%	11
SDA/DLA/PIP claimants - 18 to 64	4,538	4,544	0.1%	4

1. For definitions of the indicators refer to the Local Government Settlement 2019-20 - Local Government Finance (Councils) Report.

- 3.6 Two grants were transferred into the Revenue Support Grant (RSG):
- ❖ Teachers Pay Grant £328k
 - ❖ Free School Meals Grant £185k

Welsh Government are also providing additional support for the Teachers pay with further grant funding provided in 2019/20.

- 3.7 In recognition of the important role local authorities play in delivering core social services and the preventative approach at the heart of delivery, the Welsh Government settlement

contains a further £20 million to help ease these pressures. The allocation for Powys is £820k.

- 3.8 The final settlement includes a further £7 million to support the increase to the capital limit in charging for residential care to £50,000 commencing from April 2019. Powys has received £352k of this funding to manage the shortfall in revenue this creates.
- 3.9 Also included is an extension of the High Street rate relief scheme in 2019-20. This will enable Councils to provide additional discretionary rates relief for local businesses and other ratepayers in response to specific local issues.
- 3.10 Alongside the settlement Welsh Government is again providing £600,000 to support local government to eliminate charging for child burials.
- 3.11 While the unhypothecated (non-earmarked) Settlement is the largest single source of funding available to authorities, it is not the only one. In setting the budget and council tax levels for next year, Welsh Government expects every authority to take account of all the available funding streams and to consider how to secure best value for Welsh taxpayers through effective and efficient service provision.
- 3.12 Welsh Government provides a number of specific grants in addition to the settlement funding. A number of grants have been amalgamated with the establishment of a Children and Communities Grant (bringing together seven existing programmes) and a single Housing Support Grant (bringing together a further three programmes) from 1 April 2019. This will increase flexibility for local authorities and help to reduce the administrative burden associated with grant funding.
- 3.13 The General Capital Grant for Powys has increased by £1.545m. This is the first year of a three-year commitment to provide additional capital.

4 Proposal – Revenue Budget 2019/20

- 4.1 Underpinning the Council's budget plan and strategy is the Financial Resources Model (FRM). This model is continually reviewed and developed in formulating the budget proposal.
- 4.2 The proposed Net Revenue budget for the Council for the financial year 2019/20 is £255.2m. This includes the delegated schools' budget.
- 4.3 The budget is underpinned by the revenue settlement received from Welsh Government, which funds 68.3% of the council's net expenditure. In addition, Welsh Government and other Government departments fund activities through specific grant. The remaining net expenditure is funded by Council Tax.
- 4.4 The proposal includes an increase in Council Tax of 9.5%. This is not subject to approval as part of this report, as this is a matter for full council determination. However, the report recommends the level of Council Tax to be included in the budget that goes to full Council on 21st February 2019. On 7th March full Council meets to set the Council Tax in line with the final budget. This meeting does not reopen the budget but ensures the Council sets Council Tax for billing purposes.
- 4.5 The Council needs to look at a strategy that seeks a balance between Council Tax increases and financial resilience. Welsh Government sees Council Tax setting as a matter for each local authority to determine in order to meet pressures on its services.

This is now the government's policy expectation and planning assumption. The scale of demand and challenges in social care make it very unlikely that the 2019/20 budget could be easily balanced without an approach that sees maximising council tax as a key component. In addition, any decision to seek a low level of Council Tax will affect the Council's long term resilience as this depends on a strong tax base, meaning the rate of Council Tax as well as numbers of homes.

4.6 Any change in the level of Council Tax will have a financial impact. This is outlined below and a reduction in the level of increase must be met by further budget reductions including service cuts:-

- 0.25% change £176k
- 0.50% change £367k
- 1.00% change £735k

4.7 The financial model is developed within the framework of the Medium Term Financial Strategy attached as Appendix 1. The MTFS is influenced by the overall framework. This includes consideration of the Corporate Improvement Plan, the 2025 Vision and a range of issues including community needs and residents' views, financial and inflationary pressures, performance and regulatory reviews from Welsh Audit Office, Estyn and Care and Social Services Inspectorate Wales (CSSIW). As a result, it takes account of external as well as local issues. The MTFS has been reviewed and strengthened in response to the Wales Audit Office Annual Audit letter which recommended that "The Council must also act immediately to update its Medium Term Financial Strategy to enable the Council to live within its means going forward."

4.8 This year's budget planning has again been strengthened with the development of individual directorate and service FRMs which detail and capture all of the financial implications affecting the service. These documents enable the directorates to consider, develop and manage their own service financial strategies as well as informing the development of the overarching Council budget. The approach has significantly assisted directorates with financial planning.

4.9 The FRM shows a balanced budget for 2019/20 and is attached as Appendix 2. The specific details of the assumptions and items included are provided in the sections below.

4.10 Inflationary pressures and the impact of Local Government Pay settlement have been considered across services and £1.6m has been provided to assist in meeting these additional costs. The majority of this funding provides for the proposed Local Government pay award. The council is also dealing with the impact of new pay grading; this will be dealt with by services.

4.11 Two grants have transferred into RSG totalling £513k, as detailed in section 3.6. The budget proposes the passing of these funds to the services to meet the additional pressure.

4.12 New responsibilities are required of the Council and these are reflected with investment of £352k to support the increase to the capital limit for charging for residential care from £40,000 to £50,000 commencing from April 2019.

4.13 The proposal identifies and includes investment and service pressures of £12.9m. This demonstrates that the budget takes a balanced approach. The more significant items are summarised as follows:

- The actuarial revaluation of the pension fund in March 2017 required an increase in the Employers contribution rate. This increase has been phased in over a 3-year period with an additional £750k per annum. 2019/20 is the Year 3. This is a figure agreed by the actuary and signed off by the Treasury.
- The Authority is required to pay into a combined fire service fund in accordance with the Mid and West Fire Service (Combined Scheme) Order 1995, Part IV. Powys is one of six authorities contributing to the fund. Mid and West Wales Fire and Rescue Authority has increased the annual levy by 2.1%. This means the Powys County Council budget has to meet an additional unfunded pressure of £87k because of Mid and West Fire Service's decision.
- In line with previous years, Cabinet continues to support additional funding for schools with a further £1m included for allocation via the formula.
- Welsh Government has maintained the funding level within the Revenue Support Grant with regard to the Council Tax Reduction scheme. However, the Welsh Government settlement no longer keeps pace with payment levels and our expenditure of £8.9m currently exceeds the level of budget allocated for this. At a proposed increase level of 9.5% £1.25m is included to meet this shortfall.
- It will be recalled that the need to support Children's Services meant reserves were redirected to support the revenue budget in 2018/19. This was a 'one off' funding source and reduced the need for further immediate savings in that year, providing more time for the development of the transformational programme that needs to be implemented. The pressure this one off funding created has been resolved on a permanent basis within the 2019-20 budget proposal.

4.14 The overarching budget strategy brings together the Revenue and Capital budgets alongside the policy on Reserves. The approach links these three key elements to form the foundation of our financial plans. The Revenue Budget proposed includes these considerations with provision for the financing of capital and proposals around reserves.

4.15 This proposal provides a balanced budget for 2019/20 and includes further reductions in expenditure through efficiencies and some changes to service provision.

4.16 Reductions in expenditure through savings of £12.7m are required. Service proposals have been included in the budget plan and are provided in detail in Appendix 3.

4.17 The proposals include:-

- Continue to deliver efficiencies through process change
- Organisational Transformation - changing the Council's operating model with savings being made from and senior management arrangements.

- Where possible and appropriate, ensuring full cost recovery, or generating new sources of income.
- Consider further partnership working in order to increase efficiency and reduce cost.
- Identify services that may be no longer appropriate or required.
- Develop a community delivery approach to service delivery via the Stronger Communities Programme Board and our partners.
- Review third party spend so that contracts and specifications are appropriate and proportionate and meeting our priorities. This has seen the withdrawal of support from some organisations.
- Make more effective use of our buildings or reduce the numbers of sites out of which we operate
- Continue to restructure our services for additional learning needs, inclusion and behaviour through implementation of the revised Strategy for Special Educational needs.
- Pass on to schools delegated budgets all increases or reductions which relate to changes in pupil numbers.

4.18 The individual budget proposals have undergone an Impact Assessment to ensure that the Council understands the potential impact of the proposals. In doing so, the process considers the Council's strategic vision and priorities, risk management, equalities, Welsh language, the Wellbeing of Future Generations Act, sustainable development principles, communication and engagement, safeguarding, corporate parenting and community cohesion.

4.19 The delivery of these savings is essential to deliver a balanced budget. Achievement of savings within the financial year remains under 80%. The Council has a good record delivering savings but the record shows the savings to take longer than a financial year to be delivered. The Wales Audit Office Audit letter made a Statutory Recommendation to the Council under section 25(2) of the Public Audit (Wales) Act 2004 which stated "In setting a balanced budget, the Council must ensure that all savings plans are sufficiently well developed for inclusion in the annual budget."

4.20 Assurance must be provided to Council that the budget is robust and that the savings included in it are deliverable. This will also enable the Council and the Statutory Chief Finance Officer (S151) to sign off the budget with confidence. For the proposed budget, Savings Panels have been held to challenge and test the deliverability of each proposal. Heads of Service have provided the assurance that they can deliver the savings within the required timescales, whilst also reflecting on any risks.

4.21 In order to provide further budget assurance an independent assessment of the whole budget proposal has been undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA). This provides the Council with an independent view of the robustness of the plan.

4.22 Savings included in previous budget plans which remain outstanding, where these are undeliverable, have been removed from the budget plan. This means £3.9m was added to the pressures to balance the budget. However, by resetting areas of high risk in the budget it gives increased assurance about delivering savings on 2019-20.

4.23 A change to the Minimum Revenue Provision (MRP) policy implemented previously was further supported by a retrospective recalculation of MRP liability releasing non recurrent savings of £19.988m over a phased period by a reduction in the annual MRP charge. The saving contributes to the budget plan as follows: -

- 2017/18 £4.0m
- 2018/19 £4.5m
- 2019/20 £5.0m
- 2020/21 £4.0m
- 2021/22 £2.488m

4.24 The reduced MRP charge can be used to support services but in 2021/22 the Authority's FRM reflects the financial impact of the additional pressure as the MRP charge increases to the normal level.

5. Social Services

5.1 The level of investment in Powys' Social Services last year was considerable, increasing their base funding by an unprecedented £6.5m for Adults and £6.2m for Children's services. Further funding provided by Welsh Government via the revenue settlement (see section 3.7 above) will also be allocated to these services providing an additional £1.1m. This level of additional funding (particularly for Children's Services) reflected the serious challenge the Council faced as well as its commitment to improve outcomes by addressing the poor Children's Service inspection report.

5.2 It must be stressed that Social Services is a key area of financial risk in the 2019-20 budget. This can only be resolved through a corporate approach that sees a whole council response. An appropriate level of challenge and support will be needed in 2019-20 to ensure improvements in services to the most vulnerable are sustainable and that this does not affect the council's financial reserves.

5.3 Other funding sources will need to be maximised, including Welsh Government specific grants, to support Social Care, which the service will be able to draw down. Welsh Government has decided to use Regional Partnership Boards as the bodies for additional Children's Services funding; it therefore important that the Regional Partnership Board contributes to the pressures within Children's services, and activity that achieves service improvement and reduces financial risk must be prioritised.

5.4 In 2018-19 Adult Social Care received a significant budget increase of £6.5m. The service has delivered savings of £1.4m this year and the 2018-19 projected outturn reports a small underspend, it remains policy that there will be a reduction in base funding of £1m as part of the 2019-20 proposal. This is not without risk but the large increase in 2018-19 put the budget on a more sustainable footing and whilst potential demographic pressures are evident, it is only appropriate that Adult Services ensures it operates efficiently and effectively. However, the overall risk that Social Services (both Children's and Adults) face in 2019-20 means that the budget management reserve forms a key part of the strategy and the £2m addition included as part of the budget addresses this potential risk.

6. Capital Receipts to fund Transformation

- 6.1 Capital receipts are raised from the sale of council assets and can be used to fund capital costs or repay debt. A Capitalisation directive (April 2018) issued by the Welsh Cabinet Secretary for Local Government and Public Services, enables authorities to use capital receipts much more flexibly. This means capital receipts can help fund the revenue costs of transformation projects that generate ongoing revenue savings or transform service delivery in a way that reduces cost or demand for services in future years. This is a welcome flexibility but is restricted to the financial years from 1st April 2016 to 31st March 2022. In other words, there is a window to use the directive to support the Council through a challenging period.
- 6.2 The Council has used this flexibility since its introduction and has reduced the impact on the revenue budget by approximately £3m in the last 3 years. It is proposed to continue the use of this funding stream for the next 3 years with a minimum of £2m per annum supporting qualifying revenue expenditure. The detailed policy on the use of Capital receipts is provided in Appendix 6 and also forms part of the Capital Strategy.

7. Reserves

- 7.1 The Council's reserves are key to our financial planning; maintaining these at an appropriate level is central to our financial stability. They provide a safeguard against risk, unusual events and future financial pressures.
- 7.2 In assessing the appropriate level of reserves, the Authority will ensure that the reserves are not only adequate, but also necessary and will be appropriate for the risk (both internal and external) to which it is exposed.
- 7.3 The Reserves Policy (Appendix 8) establishes a framework within which decisions are made regarding the level of reserves held by the Council and the purposes for which they will be maintained and used.
- 7.4 The use of reserves and the levels at which they are maintained is determined on an annual basis as part of the Council's Budget setting process.
- 7.5 The level of reserves held and their forecast use in 2018/19 is reported monthly to Cabinet as part of the budget monitoring report and the table below reports the opening and projected balance of the reserves at year end. This is based on the position as at 31st December 2018.

Revenue Reserve	Opening Balance 1st April 18 Surplus / (Deficit)	Forecast Addition / (Use) of Reserves	Forecast (Over) / Under Spend	Projected Balance 31st March 19 Surplus/ (Deficit)
	£'000	£'000	£'000	£'000
General Fund	9,680	0	(3,072)	6,608
Budget Management Reserve	3,584	0		3,584
21st Century Schools Reserve	5,524	(5,043)		481
Adult Services Reserve	2,750	(2,004)		746
Specific Reserves	2,356	130		2,486
Other Ringfenced & Specific Reserves	14,072	(3,355)	0	10,717
Schools Delegated Reserves	(878)	(1,545)	(671)	(3,094)
Housing Revenue Account	3,267	212	28	3,507
Total Revenue Reserves	40,355	(11,605)	(3,715)	25,035

- 7.6 A risk based assessment has been carried out to review the level of reserves held and to assess if this level is appropriate when tested against the budget proposals.
- 7.7 The need for improvement within Social Services added to the financial challenge the Council faced for the 2018-19 budget. The need to respond quickly necessarily saw “one off” sources of funding used to support the budget in the short term. The 2019/20 budget deals with the pressure that this funding originally supported.
- 7.8 The Budget Management Reserve has been considered alongside the General Fund reserve in assessing the level of general reserve available. The Council faces a continuing financial challenge; in particular, the demand for services in both Adults and Children’s Services, and it is essential that a prudent reserve level is in place to ensure enough financial capacity is available. This cannot be stressed too highly given the level of savings, the risk inherent in the budget and the significant challenge to balance the budget over the medium term.
- 7.9 It is therefore prudent to increase the level of Budget Management Reserve in consideration of these risks. The significant potential pressure in Social Services and the requirement to deliver transformational change has influenced inclusion of £2m to be set aside and added to this reserve. Any use of the reserve will only be approved when there is an evidence based business case to support it.
- 7.10 In addition, our ongoing financial strategy will include an annual contribution to replenish our General Fund reserves. £500k per annum has been included on our budget plan from 2019/20 onwards.
- 7.11 The budget and MTFs to be approved at Council in February 2019 will confirm that the Council should continue to retain a policy of a minimum general reserve provision in excess of 3%.
- 7.12 Reserves held in the Transport and Equipment Fund, previously set aside to support the Capital Programme, will continue to be used in 2019-20.

- 7.13 The current and projected financial position of our Schools continues to be a challenge, the additional funding included in the budget plan assists schools in meeting the pressures they face, but it is essential that all Governing Bodies take action to provide a curriculum that can be delivered within the funding provided to them. The school reserves are ring fenced but ultimately represent a potential council risk. It is essential that compliance work is undertaken to ensure that school budgets are managed in accordance with regulations by Governing Bodies.
- 7.14 The use of these reserves will continually be reviewed particularly if alternative funding sources become available.
- 7.15 The reserves position will be monitored carefully on a monthly basis as the financial year progresses. Under Section 26 of the 2003 Local Government Act, an appropriate person (S151 Officer) must determine the minimum amount of General Fund Reserve.

8 Income Generation

- 8.1 Income Generation continues to form a significant part of the Council's financial strategy; the revenue budget is supported by over £60m of generated income. The Income and Cost Improvement Policy forms the framework within which income is reviewed annually. The budget proposed for 2019-20 includes the increasing of fees and charges in line with inflation, where permitted, and where appropriate, the principle of full cost recovery has been applied. The Fees and Charges register has been updated and it, together with a briefing paper, is attached as Appendix 4 and 5.

9 Impact Assessment

- 9.1 All budgetary proposals carry associated impacts – whether it is an impact on service delivery, equality and poverty, Welsh language, well-being of future generations, safeguarding, or a combination of any or all of these. The level of savings required is considerable and requires robust consideration regarding their impact. There must be an appropriate balance struck between, on the one hand being aware of the impact and seeking to avoid or mitigate adverse impacts and, on the other, the benefit gained from making the saving. It is therefore inevitable that a certain, manageable amount of risk is inherent within the budget.
- 9.2 Impact Assessments have been undertaken for the budget proposals and these have informed and assisted the Cabinet in forming the proposed budget. Completed impact assessments are included in Appendix 10; remaining impact assessments are currently being finalised.
- 9.3 Risks identified within the impact assessments will be monitored in service risk registers or the corporate risk register going forward. The corporate risk register is reported to Cabinet, Management Team and Audit Committee on a regular basis and forms part of on-going monitoring of impacts and risk.

10 Proposal – Capital Budget 2018/19 to 2023/24

- 10.1 The Cabinet continues to support an increase in the level of capital investment in the County. It is important that the council continues to renew its core infrastructure such as schools and housing in spite of funding cuts by central government.
- 10.2 Maintaining the capital programme has a significant regeneration impact for the economy of Powys alongside the direct effect of better infrastructure to deliver services.
- 10.3 Capital investment has a significant input into the delivery of revenue savings and it is essential that both budget strategies are developed in tandem.
- 10.4 The indicative 5-year programme has been reviewed and, in order to reduce the impact of borrowing on our revenue budget, we have limited the level of investment to that which is affordable for the longer term. Each of the projects included in the programme will be scrutinised further upon the submission of a detailed business case before final approval is given.
- 10.5 The Capital Strategy is attached as Appendix 6. The Strategy sets out the priorities for the next 5 years with the Capital Programme totalling £277m (including HRA). This is a significant commitment. The Capital Programme is included in Appendix 6 in the Capital Strategy.
- 10.6 The Projects included in the Capital Programme include:-
- 21st Century Schools
 - Highways Asset Management Plan
 - Waste Management
 - Vehicle Replacement Programme
 - Community Regeneration and development
 - Office accommodation
 - Investment and rationalisation in our IT infrastructure
 - Disabled Facilities Grants
 - Community Equipment and Telecare
- 10.7 The Council achieved Welsh Housing Quality Standard (WHQS) at the end of December 2018 but this doesn't mark the end of our investment programme in our housing stock. The HRA capital programme will develop new council homes; ensure we maintain the WHQS; increase thermal efficiency; address problems of dampness; improve the fabric of our estates; and improve the quality of older persons' accommodation, to enable vulnerable older people to remain living independently for longer.
- 10.8 The Council's Capital budget for 2019/20 is proposed at £75.682m and, in addition the Housing Revenue Account, Capital Budget is proposed at £16.662m.
- 10.9 The FRM includes the funding of the capital programme for 2019/20, together with an increase in the following year's budgets, to support the prudential borrowing requirements of the capital budget over the whole programme. The Programme is also supported by grant funding, reserves, and capital receipts.
- 10.10 Going forward it is important the Council tests the level of affordability of the programme this will mean that the Programme will need review and re-profiling.

11 Prudential Indicators

- 11.1 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the local authority are affordable, prudent and sustainable. The statutory Prudential Indicators are shown in full in Appendix 7. The tables include the revised estimate for 2019/20, as well as the indicators for the next four years, up to 2023/24.
- 11.2 The key indicator of affordability is the estimate of the ratio of financing costs to net revenue stream (Table 1). The ratio of financing costs for the council fund is 5.61% in 2019/20 rising to 7.79% in 2023/24. The amount of HRA income required to pay for financing increases is 24.04% in 2019/20 falling to 21.27% in 2023/24.
- 11.3 The capital financing requirement (CFR) is shown at table 5 and is the measure of the authority's underlying need to borrow for a capital purpose. It is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue.
- 11.4 The CFR is £301m in 2019/20 and will rise to £395m by the end of 2023/24, and £101m dropping to £96m for HRA debt. The level of external debt is higher than the CFR in the short term as the Council is currently funding previously used internal borrowing with external borrowing.
- 11.5 The operational boundary (Table 4) and authorised limits for external debt (Table 3) both reflect the Treasury Management policy and are set at a level to be affordable and prudent.
- 11.6 Members are asked to note that the authorised limit for 2019/20 will be the statutory limit under Section 3(1) of the Local Government Act 2003. It is recommended that the level for the authorised limit is set at £497m and the Operational Boundary is set at £472m.

12 Medium Term Financial Strategy

- 12.1 The Medium Term Financial Strategy, attached as Appendix 1, provides the framework for future budget modelling and the FRM incorporates the details of the budgetary impact. The FRM (Appendix 2) already builds initial budgets for the following years and the model currently assumes continuing reductions in funding of 2% through to 2023/24.
- 12.2 Forecasting inflation includes a number of assumptions. It is assumed that the pay award will be at 2% for future years.
- 12.3 Council tax increases of 5% are currently included for the remainder of the plan.
- 12.4 These factors will have a real terms cut in the Council's spending power and further savings have to be identified to produce a balanced budget.
- 12.5 The level of investment included in 2018/19, particularly to support the rising pressures and improvement within our Social Services, was unprecedented and a significant challenge to our financial planning. The use of one-off sources of funding such, as the adjustment to our minimum revenue provision eases the impact over a number of years but, as this ceases, it creates further pressure within our medium term plan.

- 12.6 In order to deliver a balanced budget over the medium term, the transformational approach will continue and increase in pace. This will require some radical thinking, drawing on experience of other authorities and learning from others. We will have to reconsider the discretionary services we provide and review the levels of service we can afford to deliver for our statutory services.
- 12.7 The developing commissioning strategy for Social Services, will describe how we will align the finances in that area, what investment/reinvestment and disinvestment is required to reshape the service and what outcomes will be achieved in the short, medium and long term.
- 12.8 These transformation strategies will reduce social care costs including placements for Looked After Children, support for people with Learning Disabilities and care for the Elderly.
- 12.9 We will continue to review the provision in Education including Post 16.
- 12.10 We will change the way the public interact with the Council, and continue to improve productivity and efficiency using digitalisation and automation of processes.
- 12.11 This work is key to the development of the Councils financial strategy. On the current modelling transformational change is required to deliver significant reductions in expenditure to bridge the budget gap of over £6.5m in 2020/21 with a further £20m over the following 3 years.

13 Timetable of Key dates

12 th February 2019	Cabinet agree Budget, Medium Term Financial Strategy, Capital Strategy and proposed Council Tax.
21 th February 2019	Council approve Budget, Medium Term Financial Strategy and Capital Strategy.
7 th March 2018	Council set Council Tax.

14 Longer Term Strategy

- 14.1 Despite the comments by central government about austerity ceasing, the Council cannot assume better funding settlements will feature beyond 2019-20. If Welsh Government continues to prioritise the Health Service, this will affect local government. Welsh Government policy will impact on our finances and whether these issues are fully funded cannot be guaranteed. Devolved taxation powers may also influence Welsh fiscal policy in the medium term.
- 14.2 Working with wider public sector partners is also important. Local authorities have shown their ability to work with Local Health Boards through the Integrated Care Fund. Now authorities need to meet their statutory obligations in terms of pooling budgets for key services.
- 14.3 In 2018-19's report, it acknowledged the scale of the budget reduction would drive change across the Council. This has started to happen and the significant reductions in running costs of the council is evidence of this response.

14.4 We have entered a new era for Local Government and the response requires a longer term commitment to reshaping service provision.

14.5 The remodelling of Council services to respond to reduced funding places developing the local economy at the heart of our strategy. This will play a role in our financial planning. By doing this we can seek to shift the balance of funding towards areas that we control so that we have some resilience to be able to absorb some of the estimated future reduction in Welsh Government funding.

15. Corporate Improvement Plan

15.1 The budget has been developed within the framework of the Corporate Improvement Plan. A range of issues, including community needs and resident's views, financial and inflationary pressures, performance and regulatory reviews from Welsh Audit Office, Estyn and CSSIW, have all been considered. The resultant proposals are included in this plan and reflected in the Council's budget.

16. Options Considered/Available

16.1 A wide range of options were considered, both at an individual service level and corporate level.

17. Preferred Choice and Reasons

17.1 The preferred choices are set out in this report.

18. Local Member(s)

Not applicable

19. Other Front Line Services

19.1 All Heads of Service, Strategic Directors and Portfolio Holders have been involved in the compilation of the budget proposals.

20. Support Services (Legal, Finance, Corporate Property, HR, ICT, BPU)

20.1 The Finance function has been an integral part of developing the budget proposal working closely with service managers to support the development of service and Directorate FRM's and the identification and assessment of savings proposals.

20.2 Legal – The recommendations can be supported from a legal perspective

21. Corporate Communications

21.1 The content and implications of the budget, medium term financial plan and capital programme are of significant interest to residents and staff and should be communicated widely via proactive press release, website and social media as well as through internal channels, following decision.

22. Statutory Officers

22.1 The Deputy Chief Executive and Section 151 Officer comments as follows:

The Local Government Act 2003 requires an authority's Section 151 officer to give a formal opinion as to the robustness of the budget estimates and the level of reserves

held by the Council. Under Section 26 of the 2003 Act it is not considered appropriate for the balance of the Council's General Fund Reserves to be less than the maximum amount determined by an appropriate person, in this case, the Deputy Chief Executive and Section 151 Officer.

The level of savings required in 2019-20 is a significant challenge and presents some risk to the Council. When this is coupled with the need to transform the council and the increasing potential pressures in social services it means that a prudent approach must be adopted.

The budget has been produced within the framework of the established Medium Term Financial Strategy (MTFS). The overall process continues to be refined, developed and strengthened in order that the risk faced by Council, as a result of reducing funding and increasing financial pressures, can be mitigated.

The approach to the budget has been influenced by the 2018/19 Wales Audit Office Annual Audit letter that contained the following statutory recommendation:

“The Council must act immediately to update its Medium Term Financial Strategy to enable the Council to live within its means going forward. In setting a balanced budget, the Council must ensure that all savings plans are sufficiently well developed for inclusion in the annual budget.”

This was responded to with the following measures that give further assurance to the robustness of the estimates:

- a. The development of individual and service Financial Resource Models that detail and capture all of the financial implications affecting services; this approach has meant directorates can develop and manage their own financial strategies as well as informing the Corporate position. In effect, a 'no surprises' approach has been adopted, enabling all potential pressures to be brought forward by services.
- b. Several Cabinet and EMT events tested pressures, savings and funding assumptions
- c. A Budget Assurance Panel was set up, comprising the Chief Executive, Section 151 Officer, Head of Financial Services, and the Portfolio Holder for Finance. Each Head of Service delivered their savings proposals to the Panel. The Panel then tested the position to help enable the Council and Statutory Officer to sign-off the budget with confidence.
- d. A budget review saw the removal of £2.2m of undelivered savings in Children's Services and £1.7m of undelivered income and cost reduction savings. These were in the 2018/19 budget and will not feature from 2019/20 onwards.

In reaching a conclusion about the budget the level of reserves held by a council is an important aspect. This issue is also a matter for members to receive advice upon from the S151 Officer. The Council carries out an annual reserves assessment and operates a policy of a maximum of holding and a minimum level of 3% for its General Fund Reserve.

As of the end of December 2018 the General Fund Reserves is projected to be £6.608m.

The advice given by the S151 Officer has seen the 2019/20 budget strategy include an additional £2m for the Budget Management Reserve and £500k for the General Fund. This will take the General Fund to £7.1m and the Budget Management Reserve to £5.6m. These are amounts that can support any potential slippage in delivery of savings and given the level of potential risk in the 2019/20 budget it is the S151 Officer's view that it is appropriate that these sums are added to reserves especially when looking at the potential pressure in Social Services.

An independent assessment of the budget proposal was commissioned through the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide an independent review and assist in the assessment of how the Council has developed its budget proposals in line with the requirements of the Local Government Act 2003. The subsequent report provides assurance on the robustness of the estimates, highlighting the risks associated with its deliverability and the adequacy of the reserves allowed for in the budget proposals. The report is attached as (Appendix 9).

In conclusion the report states:

- The Council has appropriate procedures in place to set a robust budget for 2019/20;
- Based on our discussions with officers and Members we are satisfied that the Council is well aware of the difficult financial position that it continues to face and that it will need to monitor the budget closely during 2019/20;
- We are also satisfied that the Council operates a sound system of budget monitoring during the financial year with monthly figures available on a timely basis. This enables corrective action to be taken in-year;
- There is a sound process in place for monitoring the level and use of reserves.

A series of documents and policies constitute the budget framework including the Reserve Policy. This has been set in consideration of a number of key factors such as the strengthened approach to risk management. The level of general reserves is in line with best practice as recommended by CIPFA and the Audit Commission. Even so, the position going forward will require reserves to be maintained at a prudent level. It is evident that, given future pressure and the need to deliver savings, the levels proposed in the budget and MTFs should not be reduced.

The current and projected financial position of our Schools continues to be a challenge. The additional funding included in the budget plan assists schools in meeting the pressures they face, but it is essential that all Governing Bodies take action to provide a curriculum that can be delivered within the funding provided to them. The school reserves are ring fenced but, ultimately, represent a potential council risk. It is essential that compliance work is undertaken to ensure that school budgets are managed in accordance with regulations by Governing Bodies.

The budget continues to be set at a time of continuing austerity with a future that is highly likely to see continuing reductions in funding. The Council also faces significant pressures, not only to improve its Social Services provision, but to manage the increasing demand for these services. The proposed increase in council tax will help mitigate the position but the Council must seek other opportunities to identify alternative sources of funding.

Taking all of the above into account, the Section 151 Officer concludes the estimates used in the budget proposal for 2019/20 are adequately robust but significant risk remains. Based on the assessment of reserves (including the proposed use of reserves within the plan) the overall level is adequate but at the lower end of acceptability given the scale of savings required in the future.

22.2 The Solicitor to the Council (Monitoring Officer) has commented as follows:

The Report has been prepared in accordance with the requirements of the Local Government Act 2003 and the Local Government Finance Act 1992. In accordance with Section 25 of the 2003 Act, the Council must have regard to the advice of the Director of Resources (Section 151 Officer), as the Chief Finance Officer, regarding the robustness of the budget estimates and the adequacy of the financial reserves. This advice must be taken into account when considering the proposals in the Report and the recommendations from the Cabinet regarding the budget and the Council tax rate. In accordance with the Functions and Responsibility Regulations, agreeing the budget and setting the Council Tax rate under the 1992 Act is a matter for full Council. In accordance with Section 30 of the 1992 Act, the Council is required to set the Council tax for the next financial year on or before 11th March.

23. **Members' Interests**

23.1 The Monitoring Officer is not aware of any specific interests that may arise in relation to this report. If Members have an interest they should declare it at the start of the meeting and complete the relevant notification form.

Recommendation:	Reason for Recommendation:
1. That the Medium Term Financial Strategy for 2019 to 2024 as set out in Appendix 1 to the report be agreed in principle.	To aid business planning and development of the budget over a three year period
2. That the proposed Revenue Budget for 2019/20 shown in the Financial Resource Model in Appendix 2 is accepted and recommended to full Council on the 21st February 2019.	Statutory Requirement
3. That the Fees and Charges proposed within the Fees and Charges Register are accepted and recommended to Full Council on the 21st February 2019. (Appendix 4 and 5)	To comply with Powys County Council Income Policy
4. The proposed Capital Strategy for 2019/20 shown in Appendix 6 including the revised Capital Receipts Policy is accepted and recommended to Full Council on 21st February 2019.	Statutory Requirement

5. That a Council Tax increase of 9.5% is included in the budget that goes to full council on the 21st February 2019.	There is a Statutory Requirement to set Council Tax but the level is a matter for local determination.
6. The authorised borrowing limit for 2019/20 as required under section 3(1) of the Local Government Act 2003 be approved at £497m as set out in section 11.6 of the report.	Statutory Requirement
7. The Prudential Indicators for 2019/20 are approved as set out in section 10 of the report and Appendix 7.	Statutory Requirement

Relevant Policy (ies):	
Within Policy:	Y
Within Budget:	Y

Relevant Local Member(s):	
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Person(s) To Implement Decision:	Chief Executive
Date By When Decision To Be Implemented:	1st April 2019

Contact Officer Name:	Tel:	Email:
Jane Thomas	01597 827789	jane.thomas@powys.gov.uk

Background Papers used to prepare Report:

Welsh Government Provisional Settlement
 Welsh Government Final Settlement
 WLGA Briefing Welsh Government Draft Budget and Provisional LGF Settlement 2019-20
 Office for Budget Responsibility Economic and Fiscal Outlook October 2018
 Independent Assessment of Budget - CIPFA

List of Documents

Appendix 1 Medium Term Financial Strategy
 Appendix 2 Financial Resource Model
 Appendix 3 Budget Savings
 Appendix 4 Income Report
 Appendix 5 Fees and Charges Register
 Appendix 6 Capital Strategy
 Appendix 7 Prudential Indicators
 Appendix 8 Reserves Policy
 Appendix 9 CIPFA Independent Assessment of Budget
 Appendix 10 Impact Assessments